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UNCLAS ZAGREB 001297

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DEPT. PLEASE PASS TO USAID (CONVERY)
USDOC FOR 4233/ITA/MAC/EUR/EERIS/CEEBC
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VIENNA FOR AGCOUNSELOR
TREASURY FOR TBF VIMAL ATUKORALA

E.O. 12958: N/A

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SUBJECT: CROATIAN PROGRESS ON PRIVATIZATION

REF: ZAGREB 1080

1. Since assuming office in December 2003, the new government of Croatia (GoC) has, on several occasions, publicly repeated its commitment to rapid and transparent privatization by 2006 of virtually all of the approximately 1,100 companies in which the GoC holds equity. This divestiture will contribute to meeting European Union accession criteria, help reduce outstanding state liabilities, and enhance the competitiveness of the Croatian economy.

2. The GoC's strong commitment to privatization was reflected in its acceptance of the conditions of new agreements with the World Bank and International Monetary Fund in June 2004 that stipulated a timeline for divestiture of the GoC's portfolio by 2006.

3. The government is the majority shareholder in approximately 100 of the 1,100 companies and is a minority shareholder in the rest. To jumpstart the privatization process in March, the GoC appointed a new board and management team to oversee the process and resumed the tendering of companies. Since then, with the assistance of USAID-funded advisors, 10 majority-owned companies have been tendered with two of the companies receiving multiple bids from qualified investors. Accelerated USAID assistance has been requested by the GoC to meet its goals of tendering 3 to 5 majority-owned enterprises and sell minority shares of approximately 40 to 60 enterprises per month.

4. To best meet the GoC's privatization targets, new approaches are being explored to selling companies "still within the boundaries of the current Privatization Law" that will preserve a transparent and competitive process but also enable a more rapid closure of transactions. These include introduction of public auctions using the Zagreb Stock Exchange for majority-owned companies as well as establishment of Public Private Partnerships for a limited number of transactions (see REFTEL).

5. By November 2004, the GoC hopes to sell its minority share packages in some 200 companies and its majority holdings in 15 companies including two large loss makers. Given that most of the enterprises are financially distressed, near bankruptcy and politically sensitive, these are ambitious targets.

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